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TAGS: [ECON](#) [EPET](#) [NATO](#) [PGOV](#) [RU](#) [UP](#)
SUBJECT: NATO ECONOMICS COMMITTEE: "HEADS" AND "SECURITY &
DEFENSE ECONOMICS IN RUSSIA/UKRAINE/FSU" REINFORCED
MEETINGS 10-13 OCT.

Classified By: DCM Rick Olson for Reasons 1.4 (B) and (D).

11. (C) Summary: The NATO "Heads of Economic Intelligence" was convened by Defense & Economic Security Director Patrick Hardouin who reviewed the Committee's program over the past year. He then turned to the issue of the UK's decision not to support the Committee's work in future and how to better support the International Military Staff (IMS) and Capitals. He proposed that innovations were necessary concerning working methods so that economic intelligence is an integral part of the agreed Strategic Military Requirements. The "Heads" reviewed their intelligence priorities with the majority putting Russia and energy security at the top of their list followed by counter-terrorism. Support for the Economic Committee and its work program was nearly unanimous.

(C) Summary Continued: The 11-13 October meeting on "Russia/Ukraine/FSU Defense-economics" reflected mounting concern over the energy security situation of NATO members (read EU), Moscow's pressure on Ukraine and Georgia and continued worrisome trends in democracy-building in the FSU, and the moribund state of economic reform in most of Central Asia. Progress on the US defense cost-estimating model "NOBEL" was also reviewed. Participation was outstanding with about 50 representatives attending and numerous papers and briefings were presented.

12. (C) Chairman Hardouin opened the annual NATO "Heads" meeting with a review of the Committee's work over the past year including experts meetings and papers on Terrorism Finance, Afghanistan's Reconstruction, Developments in the Balkans, Economic and Security Developments in the Middle East (including Iraq), and the special January meeting on Ukrainian Energy Security. He then turned to the matter of the UK's decision not to support the Committee's work in future and asked if the Committee's work was still relevant to the International Military Staff (IMS) and Capitals and if not what needed to be done.

13. (C) IMS representative Adm. Clayton (UK) explained that the IMS still needs the full operational package on its areas of current or potential military operations. It needs, for example, to know about economic trends in Afghanistan, Iraq and the Balkans, and progress on reconstruction of key economic infrastructure. Moreover, in preparation for future conflicts NATO needs to know what infrastructure should be targeted or spared for post-war recovery and urged that the Economic Committee's work be continued.

14. (C) Delegates from NATO countries having small intelligence efforts including Bulgaria, the Baltics, Poland and Turkey explained that the papers from reinforced meeting were very valuable to their governments given their own

limited analytical resources. Other delegations also strongly supported the Committees work, particularly on "energy security", "Russian defense-economic policies", "FSU criminal/organized crime", "Caspian energy" and "terrorism finance". It was clear that many believed the Committee's work is all the more important because of the disturbing negative political and economic trends in Putin's Kremlin. Some noted that given the continued political uncertainty in Ukraine, events in Georgia, Moldova's fragile economic situation and retrograde policies prevailing in Belarus it was no time for NATO to curtail its defense-economic analysis. There was also considerable consternation among the newer NATO members over Russia using its energy resources as a tool of its foreign policy, not only with the EU but also with its FSU neighbors, especially in Central Asia.

15. (C) The Chairman proposed that innovations were necessary concerning working methods in order to implement NATO requirements that economic intelligence and analysis become an integral part of the agreed NATO Strategic Military Requirements. The innovations included: 1) greater and more timely exchanges of written products; 2) more intensive use of NATO's BICES computer system as a method of more rapidly disseminating intelligence information; and 3) increased use of ad hoc reinforced Economic Committee meetings on issues of immediate concern. In response, the US mentioned ongoing "write for release" programs and efforts to obtain BICES terminals in analytical workspaces and encouraged the Committee and delegations to do the same. The US mentioned attendance at ad hoc meetings might run into funding problems, but most other delegations strongly supported the idea of ad hoc meetings.

16. (U) The "Security and Defense Economic Developments in Russia, Ukraine/FSU meeting opened 10 October with two excellent unclassified presentations, one by Dr. Rousso,

Chief Economist of the EBRD on "Escaping the Resource trap: Market Reform and Political Governance in the Resource Rich Countries of Eurasia" and the other by Prof. Alain Blum who briefed on "The Impact of Russian and Regional Demography on Economic and Social Stability".

17. (C) The classified sessions on political/economic trends in Russia and Ukraine were especially particularly dynamic, focusing on Russia's increasing willingness to use of its energy and trade leverage--some used the term "weapon"--in its relations with the newer NATO members and within the FSU especially in view of Russia-Georgia tensions. Russia's continued move towards a more statist economic policy and the fallout on its neighbors--both FSU and EU also generated a lot of discussion.

18. (C) Representatives from Poland, the Baltics, Hungary, Slovenia, and the Czech Republic presented briefings and papers describing the trends in Russia's energy sector, the impact of the energy windfall on Moscow's economic policies and its use of energy leverage for political ends. They also discussed the many negative experiences in doing business with private Russian companies and the influence exercised over firms by the Russian government and by Russian criminal elements. The US presented a briefing and paper on "Russia/Algeria/Iran: Seeking More Clout in the EU Gas Market?". Germany's paper on "Russia as a Major Energy Power" was quite pessimistic on the overall negative impact that sudden oil wealth is having on the Russian political scene and how government, FSB and criminal elements are merging to run Russia.

19. (C) The impact of Russia's energy windfall on the budgets of the MOD and other security-related forces was briefed by the UK which also offered two excellent papers analyzing actual defense and law enforcement spending in 2005 & First Half of 2006 and the budgets/projected outlays for these ministries in 2006 & 2007. These papers note that while the MOD's budget has increased substantially over the past five years, inflation has taken a big bite and in real

terms the increases are more modest, albeit still significant. There is also increasing evidence that inflation in the defense procurement sector is even higher than in the civilian economy. The paper also notes that the published 2006 MOD defense budget data is becoming less informative than in previous years. The UK also presented papers on Ukrainian defense spending and on the economy of Belarus.

¶10. (C) The US delegation presented an update on its work on the joint US/UK/Denmark "National Order of Battle Life-cycle Cost Estimator (NOBLE) defense expenditure-costing model. Recent and future model improvements were covered, as were Ruble and Dollar defense cost estimates for 2004-2015. The NOBLE estimate was then compared with Russia's defense goals according to Russia's "Urgent Tasks" report with the finding that the goals could not be met unless the defense burden rises to 6 percent of gross domestic product. The written report was posted to NATO's LOCE computer system.

¶11. (C) During the Chairman's wrap-up session many delegations expressed their appreciation for the meeting's excellent agenda focusing on the Russia/FSU-NATO big picture and how Moscow's economic policies are directly impacting NATO members. A number of experts expressed how pleased they were to have the opportunity to attend this unique gathering of intelligence analysts where they could have such a frank and dynamic exchange of views and information.

OLSON